

Embassy OSLO

302
DESP, NO:

THE DEPARTMENT OF STATE WASHINGTON

December 2, 1968

Current Situation in Norway; Norwegian-American Relations

The Embassy has prepared an assessment of the current situation in Norway which is enclosed herewith. The summary conclusions and recommendations have been separately reported by airmail.

The assessment seeks to evaluate in fundamental terms the political, Defense and Economic issues currently important to U.S.-Norwegian relations against the background of a general analysis of the political, psychological and economic fabric of the country.

WASG, Service Attaches, and USIS concur.

Fisher Howe
Chargé d'Affaires ad interim

Closure:

Assessment of Current Situation
in Norway; Norwegian-American
Relations

Copies Sent to:

Embassies STOCKHOLM, HELSINKI, REYKJAVIK, COPENHAGEN, TALLINN & USRO
USUN for Ambassador Willis

e: Wberry: SGeorge:hs:nc
REPORTER 1000000

CONFIDENTIAL

State Department review
completed

Attachment to OWOA-12411

13 December 1960

SECRET

CONFIDENTIAL

Page 1
Encl. No. 1
Desp. 302
From OSIC

CURRENT SITUATION IN NORWAY
NORWEGIAN-AMERICAN RELATIONS

SUMMARY OF CONCLUSIONS

I. GENERAL BACKGROUND

II. POLITICAL MATTERS

- A. Internal Political Situation
- B. Foreign Policy Attitudes
- C. Reaction to U. S. Foreign Policy
- D. Current Political Issues
 - 1. Solidarity with the West
 - 2. Base Policy
 - 3. Atomic Weapons
 - 4. China
 - 5. Spain
 - 6. Svalbard (Spitzbergen)

III. DEFENSE MATTERS

- A. General Attitudes
- B. Current Defense Issues
 - 1. Defense Budget
 - 2. Length of Service
 - 3. Military Assistance Level
 - 4. Spare Parts

IV. ECONOMIC MATTERS

- A. General Analysis
- B. The Domestic Economy
- C. The External Economy
- D. Current Economic Issues
 - 1. Trade
 - 2. Shipping
 - 3. Civil Aviation
 - 4. Regional Economic Cooperation; OEEC

CONFIDENTIAL

CONFIDENTIAL

Page 2
 L. No. 1
 Esp. 302
 From OSLO

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

a. POLITICAL MATTERS

Norway is a long country with a scattered population with rugged terrain and climate and great communications and transport problems. The people have strong local attachments and in many respects the nation is only recently an entity. Even today it is remote from Europe and the bulk of its commerce and transport is over water. Freed from five centuries of foreign rule Norway is a new country jealous of its independence and with anti-colonial sympathies. Its views are generally voiced in idealistic, moral and ideological terms. The Labor Party has been in power for 25 years and there is no real indication of change.

Although a member of NATO, associated with efforts to obtain European economic integration and generally oriented toward the West, Norway occupies a somewhat special position between East and West based largely upon her proximity to the USSR, the limitations on her NATO participation, her long-time socialist majority and the special ideological views and sympathies characterized by historic neutrality and pacifism.

-- Norway continues to attach great importance to the UN and favors use of the UN as an instrumentality for dealing with a variety of international issues.

-- In response to Soviet objections to Norway's joining NATO, Norway gave the USSR assurances that Norway would never be used as a base for aggressive action against the USSR and that foreign troops would be stationed in Norway only in the event of war or threat of imminent war (base policy).

-- Norway has declined to consider the incorporation of atomic weapons into Norwegian defense principally from a desire to avoid action which the USSR could regard as provocative.

In the conduct of their affairs Norwegians give due consideration to the nearness of Soviet power, but Soviet efforts to intimidate them generally succeed only in putting Norwegian backs up. By the same token Norwegians are anxious to be consulted by their allies and to have their support of Western positions taken for granted.

CONFIDENTIAL

CONFIDENTIALIncl. No. 1
Page. 302
From OSLO

Norwegians attach great importance to the reduction of East-West tensions and to measures which will lessen the chances of an East-West conflict. Judgment of and confidence in U. S. leadership are highly dependent on the extent to which U. S. policies and actions are regarded as contributing to or detracting from the achievement of this objective. Thus, the Norwegian outlook focusses primarily on the many and diverse aspects of the question of armaments as they enter into East-West relations (disarmament, nuclear testing, disengagement, location and control of atomic weapons, etc.) and on the continuous and patient efforts to deal with these problems by negotiation. The general confidence which the U. S. commands in Norway is largely the result of their estimate of our handling of these matters: the more U. S. policies and actions tend to coincide with Norwegian aspirations the less Norwegians tend to assume a neutral or neutralist posture between East and West.

Recommended U. S. Positions:

1. Solidarity with the West

Although obviously the attitude of Norway alone cannot be determining in critical decisions on major East-West issues, it is assumed that Norway's views will be borne in mind along with those of other countries, in assessing the various political, diplomatic and propaganda consequences of alternate U. S. policies. Conscientious and forthright consultation is the most important single course of action the U. S. can pursue to assure the continued strength and effectiveness of Norwegian solidarity with the West.

2. Base Policy

The U. S. should not seek to change Norway's base policy, unless a demonstrated military need is responsibly set forth.

CONFIDENTIAL

CONFIDENTIAL

Page 4
Encl. No. 1
Desp. 302
From OSLO

any determination that it is desirable to obtain a change in Norway's base policy should take into account political as well as the military factors, should be the result of a realistic appraisal clearly focused on an objective, and should therefore not simply be a "paper policy."

3. Atomic Weapons

If, in the light not only of the military factors involved, but of all the foreign policy aspects, it is determined to be in the national interest of the U. S. to seek the incorporation of atomic weapons into Norwegian defense, the approach to the Norwegians should be primarily through NATO and other military channels. The delicate internal political situation surrounding this issue and the counter-productive result of any strong or organized effort to convince Norway should be taken into account. Discreet efforts, however, should be continued to impress upon Norwegians, both military and non-military, the role of modern weapons.

4. China

In the absence of unusual circumstances creating a special case the U. S. should refrain from seeking Norwegian support on those aspects of the issue on which Norway has already clearly indicated its disagreement and maintained its position over a very long period of time.

CONFIDENTIAL

Page 5
Enc. No. 1
Des. No. 302
From OSLO

5. Spain

The U. S. should keep Norway's views in mind in any consideration of Spain in NATO and recognize that those views are far from superficially held. Any effort to get Spain into NATO should commence with a strong and convincing argument setting forth the military desirability.

6. Svalbard (Spitzbergen)

The U. S. should quietly encourage Norway to maintain its own establishment on Svalbard and its hydrographic and scientific exploration; to keep a constant surveillance on Russian activity, and to resist pressure from the USSR intended to force upon Norway a policy of excluding all modern development in Svalbard.

B. DEFENSE MATTERS

Norway is a small country which as a NATO member has had a large defense role thrust upon it by the facts of geography. Its defense effectiveness is inhibited by some factors common to several NATO countries (inadequate defense budget, pressure to reduce already minimal lengths of service for draftees), and by two policies shared in the Alliance only with Denmark (no foreign bases or troops in peacetime, no atomic weapons in the country). Despite these limitations, Norway's cooperation within NATO and bilaterally with the U. S. has been good and her contribution to the common defense worthwhile. Norway has depended on the U. S. to supply the major items needed for defense. Outside assistance will continue to be necessary if an adequate defense is to be maintained since Norway alone will not be able to purchase major items of material in any appreciable quantity. The Norwegian Defense Ministry is presently undertaking a three-year defense projection, to be submitted to the Storting in 1961 along with other long-range proposals by the Government. No major shifts in defense policy or emphasis are foreseen.

CONFIDENTIAL

CONFIDENTIAL

Page 6

Encl. No. 1

Desp. 302

From OSLO

Recommended U. S. Positions

1. Defense Budget

The U. S. should continue to urge, bilaterally and through NATO, particularly the annual review procedure, that Norway adopt more nearly adequate defense budgets. The U. S. should also work selectively through such devices as cost-sharing construction or spare parts programs to induce Norway to undertake specific new defense commitments. Military assistance should be used most sparingly if at all as a lever.

2. Length of Service

As military service is essentially an internal issue, there is little the U. S. can do. We should concentrate our effort on the importance and necessity of adequately-trained personnel, and this can be emphasized in connection with military assistance. We can indirectly encourage the maintenance of at least the present levels of service and the development of a professional enlisted service.

3. Military Assistance Level

The U. S. should continue to furnish grant aid equipment to the fullest extent permitted by legislation and available funds. There will still be substantial shortfalls, which might be met to some extent through NATO common production. The U. S. should encourage other NATO members to help meet the Norwegian need.

CONFIDENTIAL

CONFIDENTIALPage 7
Encl. No. 1
Desp. 302
From OSLO

4. Spare Parts

The U. S. should terminate spare part support generally, in line with our policy elsewhere, but in recognition of Norway's special position, we should propose to the Norwegians an offsetting increase in other grant aid, provided they agree to increase their defense budget by a substantial amount to be devoted to training. This recommendation, in greater detail, has already been made to the Departments of Defense and State.

C. ECONOMIC MATTERS

The Norwegian economy is comprised of a highly developed and fully competitive external sector with a domestic sector composed of less efficient units of production, many of which are relatively small. The economy is marked by a limited supply of natural resources, manpower, capital and technology, the allocation of which is strongly influenced by the labor government's moderately socialistic policies based on the tenets of private ownership of the preponderance of the means of production, strong central government control of the domestic economy and free play of economic forces in the external economy.

The government, with most private enterprise, is endeavoring to promote balanced economic growth through the efficient utilization of Norway's resources, particularly hydroelectric, and to improve and rationalize the less efficient industries, an effort which is not without difficulties.

In the short term, the success of government efforts to promote efficiency, and consequently to maintain price stability and competitiveness, will largely depend on the outcome of the general wage and agricultural price negotiations in 1961. Within the next few years a declining current fiscal surplus and a very high level of taxation may make it very difficult for the government to continue to expand its investment, particularly in social overhead capital and in atomic energy research as an eventual substitute for hydroelectric power, without diverting resources from the private sector in such large amounts as to slow the growth of the economy and impair competitiveness. In

CONFIDENTIAL

CONFIDENTIAL

Page 8
Encl. No. 1
Desp. 302
From OSLO

the long term, a shift from controlled consumption to mass consumption through the increasingly wide use of consumer credit may lead to a large growth of consumer demand and to a greater increase in consumption than in investment, with adverse effects on price stability and growth. Increased foreign competition will also require extensive readjustments of production and distribution methods as Norway's markets become increasingly more accessible to its EFTA partners. Finally, Norway's ability to compete in world markets may suffer if it cannot adequately import new technology since Norway is too small to afford the outlay for the required level of independent research.

The ability of Norway to cope with these problems will be greatly influenced by its ability to export large and increasing amounts of its goods and services. While a high level of domestic savings, particularly public savings, has been one key element in the very heavy investment of recent years, infusions of foreign capital and import surpluses financed mainly by the earnings of Norway's large, modern merchant fleet have been supplementary factors of critical importance.

Consequently, Norway's external economic policies are directed toward the expansion of its exports of goods and services through free competition on the international scene. These policies are reflected in Norway's membership in EFTA, its attraction toward the OECD, and its opposition to discrimination and other restrictions on international transportation. Norway's efforts thus to move toward free trade, freedom of international financial transactions and freedom of competition in international transportation; organically close economic relationships between the U. S. and Europe; and a solution of the Six-Seven issue have given rise to the conflicts of views that disturb economic relations between the U. S. and Norway. Norway feels strongly on these several issues because, as pointed out above, its finely balanced economy is particularly sensitive to even minor shifts in external conditions.

Recommended U. S. Positions:

1. Trade

The U. S. should continue to press Norway to reduce the remaining restrictions on imports from the U. S. In this effort hard core industrial items should continue to be emphasized,

CONFIDENTIAL

CONFIDENTIAL

Page 9
Encl. No. 1
Desp. 302
From OSLO

but the U. S. should also mount a long-term effort to induce Norway to reduce and in time eliminate a large part of the prevailing restrictions on agricultural imports. Action should also be taken publicly to bring to Norwegian attention the long distance that the U. S. has moved in the last 25 years from its traditional protectionist policies.

2. Shipping

Within the range of present U. S. shipping policies, we should seek constantly, but in low key, persuasively to explain our policies and to mitigate the opposition outcries from Norwegian shipping interests.

Serious consideration should be given to undertaking a greater measure of cooperation with efforts of Norway and the other maritime nations to reduce discriminatory practices in shipping. This might take the form of parallel diplomatic action or the adoption of a posture in international bodies against flag discrimination

3. Civil Aviation

The U. S. might well temporarily postpone its efforts to induce Norway and its Scandinavian partners to agree to our Bermuda concepts and concentrate on a pragmatic solution, along some other line such as voluntary measures to increase the

CONFIDENTIAL

CONFIDENTIALPage 10
Encl. No. 1
Desp. 302
From OSLO

Alternatively, there might be concluded proportion of primary justification traffic, an agreement whereby -- without reference to principle -- SAS would reduce its rate of growth over a period of time, but not freeze its capacity at 1960 levels, until primary justification traffic constituted a larger proportion of total traffic carried, within an agreed range of orders of magnitude.

The U. S. might also consider the possibility of raising the question of the interpretation of the capacity clauses in the International Civil Aviation Organization, as Norway suggested in November 1959. Throughout, however, we should seek to mitigate as best we can the emotional outcry against any discussions whatsoever of civil aviation questions.

4. Regional Economic Cooperation: OECD

The U. S. should seriously review the possibilities of a more forthcoming position toward the Seven and promoting an organic Six-Seven link. No specific courses of action toward Norway directly, however, seem indicated.

Similarly, the U. S. should continue in Paris to negotiate the compromises of issues on OECD on which the two countries differ, taking Norwegian desiderata into account to the extent feasible. No specific courses present themselves in relation to direct action with Norway.

CONFIDENTIAL

CONFIDENTIAL

Page 11

Encl. No. 1

Disp. No. 302

From OSLO

I. GENERAL BACKGROUND

Norway is relatively a new nation having achieved its independence in 1905 after four centuries of Danish rule and nearly a century of Swedish rule. It is a large (1,200 mile long) country lying athwart the Arctic circle, with a difficult climate and rugged terrain and a small (3.5 million) scattered population. Communications and transport difficulties are great. Population centers are of very recent growth and, in many social and economic respects, Norway, despite intense nationalism has yet to become an entity. The inhabitants of fjords and valleys are very provincial in relation to the nation as the nation, in many respects, is provincial in relation to the world. People are highly differentiated as to language (dialect), conservative in customs and with an intensely parochial view. Although there is a notable lack of significant issues between the parties they attach acute importance to seemingly secondary issues which apparently have great psychological or emotional significance (e.g.: language, education, redistricting of towns).

Norway is even today relatively remote from Europe. The bulk of her international transport and commerce is over water. She has a long history of isolation, pacifism and neutrality.

While the Norwegian economy has some strong points such as shipping and a limited number of industries, it is generally in a precarious situation and dangerously vulnerable to external factors. Natural resources, except for waterpower, are scanty. Less than four percent of the land is arable, and the present comparatively high standard of living does not alter the fact that Norway is basically a poor country and that many Norwegians eke out little better than a subsistence living.

As a small power Norway has strong convictions as to the importance of the rule of law to her survival and to the protection of her interests from encroachment by great powers. Norwegian views are generally voiced in idealistic moral and ideological terms, strongly held often even in the face of inconsistent facts with a tenacity which, particularly where pecuniary interests are involved, is characteristic of a hardy peasant background.

Norway's location, climate and terrain have all contributed to her traditional interest in arctic and antarctic exploration. Outside the mainland Norway has an antarctic claim and several territories of strategic significance: Jan Mayen, a small island in the North Atlantic and Svalbard, (Spitzbergen Archipelago), which is also the object of considerable Soviet interest.

CONFIDENTIAL

~~CONFIDENTIAL~~

Page 12

Encl. No. 1

Desp. No. 302

From OSLO

II. POLITICAL MATTERS**A. Internal Political Situation**

The last 25 years have witnessed the rise in Norway of a social welfare state which in many significant respects is no more radical than the U.S. but which, despite a generally moderate approach, is arbitrarily regarded, both by its supporters and critics, as socialism.

The Labor Party has been in power since 1935 and now has an absolute majority in Parliament. This majority is in some ways precarious because it depends on holding together a rather wide range of economic groups (farmers, fishermen, forestry workers, white collar and industrial workers) and differing ideological groups (from radical socialists to moderate liberals). It also depends on the ineffectiveness of the non-socialist opposition. So far the Labor Party has succeeded in compromising differences sufficiently to mollify dissident groups. The Labor Party is headed by Einar GERHARDSEN, who except for a short interval, has been Prime Minister since World War II. He is clearly the dominant personality in Norwegian politics.

The general tendency of all the parties (not including the Communists who have only one seat in Parliament) is toward the political center and emphasis is on the pragmatic and practical rather than on the ideological. Even if the Government were changed there would be no change in foreign policy and little change in domestic policy.

B. Foreign Policy Attitudes

As a new country with a relatively recent history of liberation from foreign rule, Norway has anti-colonial sympathies. In addition, the Labor Party is sympathetically disposed to governments conducting new social experiments. In some respects Norwegians, in the Labor Party at least, consider themselves more nearly akin to the underdeveloped countries than to other nations. The Norwegians do not believe that the Soviets are likely to start a general war but instead believe strategic decision now depends largely on political and economic efforts in the uncommitted areas of the world.

The Norwegians are strongly inclined to favor the underdog wherever he may be found and to cheer revolutions. They are inclined also to be exceedingly severe and moral in their judgment of corruption and totalitarian regimes of the right. These attitudes strongly affect their views on Algeria, Cuba, China and Spain.

Norway continues to attach great importance to the UN and favors use of the UN as an instrumentality and forum in a variety of international issues (e.g.: disarmament, assistance to underdeveloped countries, maintenance of peace, etc.). In the UN particularly, Norway sometimes

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

Page 13
Encl. No. 1
Desp. No. 302
From OSLO

regards herself as a go-between between East and West, a role she is in fact in some respects well suited to play, and she is justly proud of the contributions of Halvard LANGE, Hans ENGEN and others in negotiating acceptable resolutions on a number of major issues.

The Norwegian Labor Party maintains world-wide party-to-party relations. The Labor Party also believes itself to be in a good position to maintain special relations with certain countries behind the iron curtain (e.g.: Poland) and they believe in promoting a variety of East-West relations to maintain contact with the western heritage of certain of satellites in Europe.

At the conclusion of World War II Norway joined the UN in the realization that she was dependent on collective security. The failure of the UN to provide adequate security and the proximity of the USSR resulted in Norway's becoming a charter member of NATO.

In response to Soviet objections to Norway's joining NATO Norway gave the USSR assurances that Norway would never be used as a base for aggressive action against the USSR and that foreign troops would be stationed in Norway only in the event of war or threat of imminent war. This is known as Norway's "base policy."

Norway has also heretofore declined to consider the incorporation of atomic weapons into Norwegian defense. The reasons for this policy are complex but, as in the case of the base policy and a number of other situations involving relations with the USSR, the desire to avoid action which the USSR could regard as provocative is prominent. Similarly the hope of avoiding destruction on Norwegian soil in the event of general war or even, possibly, avoiding any participation at all in a general war is present. (For Embassy evaluations of the atomic weapons policy see Embdes 206, October 18 and Embdes 259, November 19).

Norwegians are jealous of their independence and proud of it. In the conduct of their policy Norwegians give due consideration to the nearness of Soviet power, but Soviet efforts to intimidate them into giving further consideration to this factor generally succeed only in putting Norwegians backs up. By the same token Norwegians are anxious to be consulted by their allies and not to have their support of Western positions taken for granted by their "big brothers" in NATO.

While the bitter memories of World War II have been attenuated by the passage of time and Norway has accepted the necessity of close cooperation with Germany (which is also her most important trade partner) in NATO, anti-German sentiment, distrust of Germany and of renascent German military power is still an important factor. This is particularly in the left wing of the Labor Party although the situation true

CONFIDENTIAL

Encl. No. 1
Desp. 302
From OSLO

is now somewhat mitigated by the position of Willy BRAUNT in the SDP.

Norway's special interests and points of view are shared in varying degrees by her Nordic neighbors: Sweden, Finland, Denmark and Iceland. Although these nations, which have highly similar views on general political and security matters, were not successful in forming a defense community, they are closely associated in a number of fields of endeavor which are coordinated by various Nordic governmental institutions and party contacts.

Norway is a member of NATO, associated with efforts to obtain European economic integration and generally oriented toward the West. Norway, however, occupies a special position between East and West based largely upon: her proximity to the USSR and the limitations on her NATO participation, her socialist majority with the special ideological views and sympathies noted above, her historic neutrality and pacifism.

C. Reaction to U.S. Foreign Policy

Norwegians attach great importance to the reduction of East-West tensions and to measures which will lessen the chances of an East-West conflict. Judgment of and confidence in U.S. leadership are highly dependent on the extent to which U.S. policies and actions are regarded as contributing to or detracting from the achievement of this objective.

Thus Norwegian foreign outlook focuses largely on the handling of the many and diverse aspects of the question of armaments as they enter into East-West relations (disarmament, nuclear testing, disengagement, location and control of atomic weapons). In this connection importance is also attached to continuous and patient efforts to deal with these problems by negotiation and the emphasis which is placed on political and economic rather than on military measures, both in resistance to threatened extension of Soviet influence (particularly in uncommitted areas) and in developing the NATO alliance. Importance is also attached to the basic attitude shown to East-West exchanges and other contacts. Norwegians, particularly in government circles, understand that these problems involve such complexities as the need for controls and inspection in disarmament, the importance of a strong military posture as a foundation for negotiations, and they are aware of the pitfalls in exchanges, etc. But a segment of the Norwegian public, including some of the most intelligent and intellectual, while accepting in principle the need for safeguards, is still disposed to join appeals broadly opposing atomic weapons and calling for peaceful actions as if both sides of the East-West conflict would be affected equally. The U.S., however, is often regarded by Norwegians as being unduly militant in the tone of its reactions to the USSR and as placing undue emphasis on military measures, or measures of military assistance, in its reaction to threats of extension of Soviet influence. U.S. attitudes and actions on the various aspects of these problems are the principal factors on which, at any given time, the

CONFIDENTIAL

~~CONFIDENTIAL~~

Page 15
Encl. No. 1
Desp. 302
From OSLO

state of U.S.-Norwegian relations and of Norwegian confidence in U.S. leadership depend.

As a small power Norway is in most respects a follower rather than an initiator. As a member of NATO Norway has loyally supported NATO positions and the Norwegian Foreign Minister has successfully defended these positions and won general support for them in the Norwegian Parliament. Norway cannot be said to have an independent position on such a subject as disarmament. If the U.S. and NATO position on disarmament (and all the related subjects) gives the impression that a genuine effort is being made to move in what Norwegians consider the right direction, Norwegians feel comfortable in their association with the West. It is the general interrelated texture of these subjects rather than a technical position on an individual subject which is important. The general confidence which we command as the result of this total product which determines the extent to which Norwegian will emphasize (or de-emphasize) points of difference with us on specific East-West issues and the closeness of their association. In sum the more U.S. policy and actions tend to coincide with Norwegian aspirations the less Norwegians will tend to assume a neutral or neutralist posture between East-West. As the Foreign Minister describes it "the strength of neutralism in Norway varies in inverse ratio to Norway's confidence in the U.S."

Norway is well aware that the principal threat to her independence comes from the Soviet Union and that NATO is essential to her military posture. Norway is anxious for the U.S. to put forward policies which she can support and to feel that her voice is heard in NATO and other international councils. On the other hand Norway expects her allies rigorously to respect the limitations on her NATO participation. She came to her present position from a long history of neutrality. When she is frustrated with respect to her expectations she tends to revert to a more uncommitted position between the East and West.

There is not presently any crisis in U.S.-Norwegian relations but there has been a general diminution of confidence which has been particularly aggravated by the U-2 affair and the differences between the U.S. and Norway on air transport and shipping matters (see below). The general level of confidence is also affected by some Norwegian reservations as to our political skill in dealing with the Soviet Union and the uncommitted areas of the world.

D. Current Political Issues

The interrelated texture and general attitudes on East-West issues are unquestionably most important in determining the state of U.S.-Norwegian relations. There are, however, several issues on which particular Norwegian views are worth stating separately, and on which a U.S. position can be recommended.

CONFIDENTIAL

Page 16
Encl. No. 1
Desp. 302
From OSLO

1. Solidarity with the West

Leadership of the Labor movement in Norway is actively and militantly opposed to any encroachment by Communist influence. Moreover, there is a great reservoir of friendship for the U.S. among the Norwegian people. The Norwegian press generally is friendly to the U.S. though the views which it expresses in part reflect a long-standing tradition of solidarity with the Government in foreign affairs matters and does not necessarily accurately reflect the diverse views of the public.

Norwegian friendship for the U.S., the availability of Norwegian facilities for NATO military purposes and Norwegian support on most East-West issues is not currently in any doubt nor is there any significant public opposition. Among Norwegians, however, the degree of enthusiasm for NATO and for U.S. policies tends to relate at any given time to the state of world tensions, the status of the fundamental and complex issues between the East and West, and on the apparent willingness of the U.S., on the one hand, and of the USSR, on the other, to deal constructively with these issues (particularly those most closely related to armaments). Soviet threats and aggressive actions, particularly when they are aimed directly at Norway tend to make her stand firm. On the other hand Norway is inclined to look for compromises when she thinks that the U.S. is either too militant or not sufficiently willing to negotiate directly with the USSR.

Recommended Position:

Although obviously the attitude of Norway alone cannot be determining in critical decisions on major East-West issues, it is assumed that Norway's views will be borne in mind, along with those of other countries, in assessing the various political, diplomatic and propaganda consequences of alternate U.S. policies. Conscientious and forthright consultation is the most important single course of action the U.S. can pursue to assure the continued strength and effectiveness of Norwegian solidarity with the West.

2. Base Policy

U.S. and NATO military authorities have indicated in general terms that the inability to station foreign troops in Norway in time of peace is disadvantageous to the best military posture. However, there has been no military pronouncement clearly setting forth in what manner and particularly in what degree Norwegian base policy is debilitating. Failing such military evaluation it can only be assumed that military authorities do not attach serious importance to it. The Northern Headquarters NATO Commander (AFNE) has stated that there is no current need to station foreign forces in Norway.

CONFIDENTIAL

~~CONFIDENTIAL~~

Page 17

Encl. No. 1

Desp. 302

From OSLO

Norway's base policy is firmly entrenched in government policy and is, throughout Norway, supported by the public. Any effort from outside to have the policy changed would be directly counterproductive. The Norwegian base policy was accepted by the NATO allies as a political fact attendant upon Norwegian adherence to the Alliance.

Recommended Position:

The U.S. should not seek to change Norway's base policy, unless a demonstrated military need is responsibly set forth. Any determination that it is desirable to obtain a change in Norway's base policy should take into account political as well as the military factors, should be the result of a realistic appraisal clearly focused on an objective, and should therefore not simply be a "paper policy."

3. Atomic Weapons

The Government position on atomic weapons for Norway is designed by one rationale or another to avoid any present decision squarely involving an affirmative or negative response to the immediate atomic arming of Norway. The position of the Labor Party on the other hand, as incorporated in its 1957 program and binding upon the Party until repealed by a national Party Congress, is that there shall be no atomic weapons on Norwegian soil. No political party is prepared to take a position that atomic weapons should, in the present situation, be introduced into Norwegian defense.

The most prominent argument used to oppose the stationing of atomic weapons in Norway is that Norway should not undertake any action which the USSR would find "provocative" and which would risk involving a serious revision of the present relationship of the USSR to Scandinavia as a whole. The Labor Party leadership has indicated privately that it would like to have included in the Party program, to be approved in the Spring of 1961 for the Storting term 1961-65, a more flexible position. However, as important segments of the Norwegian public are opposed to atomic weapons generally on pacifist, neutralist or moral grounds and are susceptible to appeals and demonstrations "opposing" such weapons "unilaterally," it is increasingly unlikely that there will be any significant change in the Labor Party's position. In any event the effort to obtain change in the Party program does not carry with it any belief on the part of the Labor Party's leaders that atomic weapons should be introduced into Norwegian defense now.

CONFIDENTIAL

Page 18
Encl. No. 1
Desp. 302
From OSLO

The military view of the relative value or necessity of atomic weapons in Norway is most unclear. Norwegian military officials are generally in favor but no official pronouncement on the subject has been made. American and NATO military views are also mixed, particularly with the emergence of the concepts associated with Polaris off-shore potential and the suggestion of a NATO independent deterrent. Although some responsible military officials have declared that atomic weapons in Norway are highly desirable, ~~substantially~~ responsible political opinion holds that at least there should be no bar to their introduction. There still remains the need for a relative appraisal of the military need against the political reluctance to accept.

Recommended Position:

If, in the light not only of the military factors involved, but of all the foreign policy aspects, it is determined to be in the national interest of the U.S. to seek the incorporation of atomic weapons into Norwegian defense the approach to the Norwegians should be primarily through NATO and other military channels. The delicate internal political situation surrounding this issue and the counterproductive result of any strong or organized effort to convince Norway should be taken into account. Discreet efforts, however, should be continued to impress upon Norwegians, both military and non-military, the role of modern weapons.

4. China

Norway recognizes Communist China and believes it is entitled to occupy China's seat in the UN. Conversely, Norway regards the U.S. refusal to recognize China and to seat it in the UN as a refusal to accept the plain facts and deal realistically with an existing situation. Although the leading officials concerned with foreign policy understand that the future of Formosa is inextricably involved in a solution of the Chinese problem most Norwegians seem unaware of this complication. Norwegians generally believe Communist China to be "entitled" to the offshore islands and consider armed resistance to Communist China at this point as a danger to the peace.

Norwegian reaction to U.S. support for defense of the offshore islands by the Republic of China enters into the general complex of East-West issues. Despite the Chinese invasion of Tibet Norwegians are inclined to believe that Communist China cannot be expected to behave responsibly unless accepted as a member of the community of nations.

CONFIDENTIAL

~~CONFIDENTIAL~~Page 19
Encl. No. 1
Desp. 302
From OSLO

Norway regularly votes against the U.S. on the issue of seating Communist China. Norwegian views on this subject are firmly established and efforts to obtain Norwegian support for those aspects of our policy which they have not heretofore agreed to are inclined to be resented and are likely, at the very least, to cost goodwill. Norway and the U.S. have fully exchanged views on this issue and unless a new set of factors enters the picture, little or nothing is to be gained by any further exchanges.

Recommended Position:

In the absence of unusual circumstances creating a special case the U.S. should refrain from seeking Norwegian support on those aspects of the issue on which Norway has already clearly indicated its disagreement and maintained its position over a very long period of time.

5. Spain

The Norwegian Government is opposed to Spanish membership in NATO. The leadership of the Labor Party, even if it were inclined to, could not get support within the Party for Spanish membership. Furthermore, Norwegian foreign policy is generally conducted on the basis of widespread agreement of the non-socialist parties and there is no party in Norway which would support Spanish membership. The objections are so vocally stated and influentially backed that so long as FRANCO remains in power the Norwegian view may be taken to be unalterable.

Implicit in Norway's position of opposition is a judgment as to Spain's military security value to NATO. Norwegians are not reluctant to point out that they have never heard a responsible NATO view expressing the military need or even military desirability of Spanish association. In fact they are under the impression that General NORSTAD, in his public statements at least, has been notably silent on this issue. Norwegians for their own part are sceptical concerning the value of a Spanish military contribution to NATO. They believe that Spain's military significance as a possible asset to NATO is limited to the strategic considerations arising out of its geographic location, and that this asset is adequately made available to NATO through U.S. bilateral arrangements with Spain.

Unconvinced of any pressing military requirement for Spanish association, Norwegians remain impervious to claims that the exclusion of Spain is due only to the anachronistic whim of a minority of the mere 3.5 million inhabitants of a single member of NATO which should not obstruct the desires of the majority. Norway in this connection is not unmindful that the enthusiasm for Spanish membership is by no means overwhelming in Britain, France, Belgium, Holland and Italy; and of course Denmark is clearly opposed.

~~CONFIDENTIAL~~

Norway is fully prepared to bear the brunt of the responsibility for keeping Spain out of NATO: indeed Norway probably takes pride in having such a decisive voice among Great Powers. Confident that if the issue were joined she would not stand alone, Norway will not be budged unless convinced that her national security itself is at stake. Moreover, Norway is aware of its own contribution to the strategic position of NATO and knows that the allies will be most reluctant to purchase Spanish membership at the price of Norway's.

Recommended Position:

The U.S. should keep Norway's views in mind in any consideration of Spain in NATO and recognize that those views are far from superficially held. Any effort to get Spain into NATO should commence with a strong and convincing argument setting forth the military desirability.

6. Svalbard (Spitzbergen)

The political significance of Norway's Polar Archipelago arising from its strategic position is demonstrated by:

(a) The maintenance on Svalbard by the USSR of uneconomic coal mining enterprises, the only non-official Russians living outside of the Orbit, comprising almost 3/4 of the entire 3,500 population of the area.

(b) The consistent USSR effort since the war to get Norway to abandon to Russia all or part of its responsibility for the territory and to curtail any developmental activity.

The most recent Soviet effort (September 1960) relates to possible Norwegian effort to establish civilian airfields.

Recommended Position:

The U.S. should quietly encourage Norway to maintain its own establishment on Svalbard and its hydrographic and scientific exploration; to keep a constant surveillance on Russian activity, and to resist pressure from the USSR intended to force upon Norway a policy of excluding all modern development in Svalbard.

CONFIDENTIAL

CONFIDENTIAL

Page 21
Encl. No. 1
Desp. 302
From OSLC

III. DEFENSE MATTERS

(Note: The two most important component elements in Norway's defense policy -- her base policy and her attitude toward atomic weapons -- are discussed under the Political heading. This section, while referring to the military consequences of the atomic weapons attitude, addresses itself more specifically to Norway's present defense posture, her military relationships to NATO and the U. S., and major problems in the defense field.)

A. General Attitudes

Norwegian defense is keyed solidly to two things: NATO and U. S. military assistance. In defense matters, Norway put herself wholly into the hands of the NATO Alliance in 1947. This decision continues as in the past to have virtually unanimous support in the Storting and the country at large, for the reason that every thinking Norwegian realizes that Norway alone is completely unable to defend herself adequately.

Norway makes a significant contribution to the Alliance: virtually all Norwegian armed forces are earmarked for NATO; Norwegians cooperate wholeheartedly in many aspects of Alliance military planning, particularly those readily identifiable as purely defensive in nature (early warning, integrated air defense, etc.); and the NATO Headquarters for Allied Forces Northern Europe is located in Norway. Norway contributes also to NATO military solidarity in the less measurable but no less important respect of standing firm in the face of Soviet military threats.

Military Assistance. Norwegian-American cooperation under the general NATO aegis has also been very close, with the U. S. serving as the source of virtually all the arms and materiel with which the Norwegian military effort has been mounted. Over the whole span of the U. S. military assistance program, the U. S. has supplied in grant aid about \$600,000,000 worth of military hardware. The most important items foreseen over the next few years in the area of military assistance are (1) a naval construction program to cost about \$117 million, with the U. S. and Norway each paying half, (2) F-104 grant aid replacements for two squadrons of outdated fighters, and (3) Albatross grant aid replacements for outdated ASW aircraft. It is possible that Norway might do more for herself in some respects, but when it comes to major items of military equipment -- warships, planes, tanks,

CONFIDENTIAL

CONFIDENTIAL

Page 22
Encl. No. 1
Desp. 302
From OSLO

heavy and modern weapons — it is obvious that a small country with limited resources cannot equip itself adequately. Outside assistance in considerable measure will continue to be needed if Norwegian armed forces are to be equipped in such manner as to make a reasonable defense posture possible.

While Norway has not been able to assist the U. S. in such material ways, the spirit of general cooperation with the U. S. in military matters has been generally excellent, and Norway has also cooperated readily in several special projects undertaken by the U. S. in Norway.

Military Strategy. The Russians have powerful forces in the Kola-Murmansk area, armed with the full panoply of modern weapons. Norway has total mobilizable forces of about 217,000, with standing forces totalling about 36,000 and the balance being Home Guard and Local Defense Forces. There are 3 1/3 Army divisions, a 50-ship Navy, a 10-squadron Air Force. The Army has one Honest John battalion and the Air Force one Nike battalion. There are also fairly extensive early-warning facilities, composing a major portion of the whole NATO system.

In the event of Soviet attack, which would presumably be first made on North Norway, the major Norwegian contribution to the Alliance would probably be in early warning. The Norwegian armed forces themselves do not presently have the capability of striking Russian bases effectively, nor of engaging invading forces with any real hope of success. In actuality, and in terms solely of Norwegian resistance, Russian forces could seize North Norway at negligible cost to themselves.

The military imbalance between Norway and Russia, with the consequent nearly total Norwegian dependence on outside NATO and U. S. assistance, accounts for a thread of hopelessness which is woven into Norwegian thinking and which appears occasionally, stimulating Norway's always latent neutrality thinking. Since Norwegians cannot hope to beat the Russians anyway, so they sometimes say, why waste time and money improving the military? This attitude can be effectively countered by emphasizing the fact that it is possible for Norway herself, with proper decisions, planning, and use of available resources, to raise the purely military price for taking North Norway to such a level that the Russians may be unwilling or possibly even unable to pay it. Keeping this concept firmly before the Norwegians is of considerable military importance to the Alliance.

CONFIDENTIAL

CONFIDENTIAL

Page 23
Encl. No. 1
Desp. 302
From OSIC

Modern Weapons. Quite apart from the political question of the acceptance of atomic weapons on Norwegian soil, there is an important issue in Norway relating to the manner in which a war involving Norway might be fought, and thus what sort of weapons are appropriate.

Some Norwegians may think wishfully and wistfully that in event of an all-out war Russian and U. S. rockets might pass overhead, leaving Norway undamaged beneath. Most who think about it probably realize Norway would inevitably become involved. They do not visualize Norway in an active role of carrying the attack to the U.S.S.R., but assume the U. S. will do this, with atomic weapons. They also assume that the U. S. or other NATO forces, presumably armed with atomic weapons, will come to the aid of Norwegian forces under attack, whether this attack be of a limited nature or part of a general war.

There is a growing, if grudging, realization in Norway that atomic weapons, as evil as they may be thought to be in principle, would have to be used if the other side used them. There is no indication that if war came Norway would refuse to permit herself to be defended by allies using them, and it is not unreasonable to suppose that if war came, Norway would want atomic weapons for her own forces, although it is quite unrealistic to think that the necessary training, installation, etc., could be effected at such a time, for any other than weapons of relatively minor tactical importance.

Apart from the factors mentioned under the Political heading, and the Norwegian realization that they have powerful allies who do have atomic weapons, one factor underlying their attitude on atomic weapons is the emphasis on defense as compared to offense. This attitude, which doubtless stems in large part from Norway's pacifist and neutralist past, may be described as a belief that there are some sorts of weapons basically "defensive" in nature, and others basically "offensive" in nature, and that the way to demonstrate one's peaceful intentions unmistakably is to abjure the one and adopt only the other. If there were such a thing as a weapon which would shoot only one way -- from defenders toward aggressors -- it is certain that Norway would adopt it. The concept that offense and defense, in other words, are functions or resultants of intentions, not of the particular sorts of weapons held or not held, seems not to register very clearly with Norwegians.

This basic attitude is probably the reason, for instance, that Norway cooperates so readily in NATO military planning and measures which

CONFIDENTIAL

CONFIDENTIAL

Page 24
Encl. No. 1
Desp. 302
From OSIC

are readily identifiable as "defensive," even by hostile critics. It is also one reason why she balks at weapons which have a connotation, at least, of being laid down on the opponent in his home territory, instead of being laid down on him only when he seeks you out in your own territory.

In any event, the result of Norwegian attitudes on atomic weapons is that whatever allies might do, Norwegian units themselves would have to depend solely on conventional weapons for any fighting they might undertake at present. There would seem to be no reasonable doubt that the military effectiveness of Norwegian forces could be increased many-fold by the adoption of atomic weapons. No other step within the range of possibility could have a comparable effect in enhancing Norway's defense potential. This purely military evaluation is by no means completely accepted in Norway, however, and even where it is accepted it is more than counter-balanced by political objections.

B. Current Defense Issues

1. Defense Budget

The Norwegian defense budget is drawn up in accordance with an unwritten compact arrived at in 1957 between the Government and the Storting, by which the defense budget was to remain constant at a 1957 real level, with cost of living increases added as necessary. That budget is now somewhat above one billion kroner (\$150 million), is 16 per cent of the total fiscal budget and 3.5 per cent of GNP. It is sufficient to maintain the forces, but does not permit adequate training, purchase of needed new equipment, etc.

Agreement in principle has recently been given to expand the defense budget in real terms sufficiently to take care of the new Joint Shipbuilding Program, but any further expansion when the present compact expires with the election of a new Storting in 1961 will be difficult to achieve. An increase would require either higher taxes (already among the highest in the world), or diverting funds from social services, communications, investment, etc.--programs which are at the heart of the Labor Party's political strength.

Recommended Position:

The U. S. should continue to urge, bilaterally and through NATO, particularly the annual review procedure, that Norway adopt

CONFIDENTIAL

CONFIDENTIAL

Page 25
Encl. No. 1
Desp. 302
From OSLO

more nearly adequate defense budgets. The U. S. should also work selectively through such devices as cost-sharing construction or spare parts programs to induce Norway to undertake specific new defense commitments, particularly in the area of better personnel operations and training. Military assistance in general, however, should be used most sparingly if at all as a lever.

2. Length of Service

Except for those physically unfit, all Norwegian males serve in the armed forces -- 16 months for the Army, 18 for the Air Force and Navy. There is constant pressure on the Government to reduce these terms, pressure which rises as the international climate improves or appears to do so, and recedes in more troubled times. So far the Government has held firm against a reduction. None seems imminent, but it remains a definite possibility.

The present lengths of service are minimal in terms of time needed to turn recruits into servicemen able to use properly the equipment available to them. As new and more complicated equipment comes into use, it is obvious that more or improved training for recruits, or more career personnel, will be necessary if full efficiency is to be maintained. The latter alternative of developing a "career" service in the enlisted ranks is now being put forward by the Ministry of Defense.

Recommended Position:

As military service is essentially an internal issue, there is little the U. S. can do. We should concentrate our effort on the importance and necessity of adequately-trained personnel, and this can be emphasized in connection with military assistance. We can indirectly encourage the maintenance of at least the present levels of service and the development of a professional enlisted service.

3. Military Assistance Level

Norway is unable to purchase the larger items of military equipment necessary for a reasonable defense posture. She has trouble enough paying for operating costs after such items are given to her outright; in fact, high operating costs have played a significant role in Norway's aloneness to accept some military assistance items offered by the U. S.

CONFIDENTIAL

CONFIDENTIAL

Page 26
Encl. No. 1
Desp. 302
From OSLO

The major outlines of projected U. S. assistance over the next few years have already been sketched in the five-year plan recently submitted, and decisions with respect to the Navy construction program and Albatross and F-104 replacements have already been made known to the Norwegians. The Navy is reasonably well taken care of, but the F-104 program is only a start at modernizing the Air Force, and the Army will also have serious needs which cannot be met by presently-planned levels of U. S. assistance.

Recommended Position:

The U. S. should continue to furnish grant aid equipment to the fullest extent permitted by legislation and available funds. There will still be substantial shortfalls, which might be met to some extent through NATO common production. The U. S. should encourage other NATO members to help meet the Norwegian need.

4. Spare Parts

Closely connected with the problem of general maintenance costs is the problem of spare parts. The U. S. is still furnishing spare parts to Norway under grant aid, but this is an exception to the general rule, and it will be necessary in the reasonably near future to make some change.

Given the dangerously thin Norwegian military effort, simply cutting off spare parts support would not be a desirable solution to the problem. The Norwegians would be forced either to cannibalize equipment, let it deteriorate gradually otherwise, or reduce other important defense expenditures to take care of spares. It is not realistic to think that they will be willing to add full spare parts costs to the present defense budget. They are aware, however, that the U. S. policy with respect to furnishing spare parts has changed, and that we will be making proposals to them.

Recommended Position:

The U. S. should terminate spare part support generally, in line with our policy elsewhere, but in recognition of Norway's special position, we should propose to the Norwegians an offsetting increase in other grant aid, provided they agree to increase their defense budget by a substantial amount to be devoted to training. This recommendation, in greater detail, has already been made to the Departments of Defense and State.

CONFIDENTIAL

CONFIDENTIAL

Page 27

Encl. No. 1

Desp. 302

From OSLO

IV. ECONOMIC MATTERS

A. General analysis

The economy of Norway is precariously susceptible to external influences. In a sense, two economies exist side by side: the home consumption economy of varying and often questionable efficiency and the foreign trade economy which is highly efficient and entirely competitive in the world's markets.

The structure of both is characterized by a mixture of state and private ownership, the latter preponderant. But while government control and regulation are the distinguishing features of the domestic economy -- in respect of both home consumption industry and the domestic aspects of the foreign trade industry -- government intervention largely ends at the waterline. In principle, and to a surprising extent in practice, the social democratic government of Norway, supported by a preponderance of public opinion and organized political forces, stands for 19th century economic liberalism in its international aspects including freedom of trade, freedom of enterprise, freedom of competition and full convertibility of currencies.

B. The Domestic Economy

Government industry and labor are making great efforts to improve the utilization of Norway's scant resources. Manpower in the population centers is fully employed, a condition that limits the scope for future rapid economic growth. Efforts therefore are being concentrated on increasing the skill of the labor force, moving labor from surplus to deficit areas, propagating improved management techniques, and providing labor more effective plant and equipment with which to work.

In outlying areas, however, concealed as well as seasonal unemployment is prevalent. Agriculture is largely inefficient and is protected for political as well as traditional, social and, ostensibly, defense reasons. Inshore fishing employs largely antiquated methods and provides a poor livelihood to several thousand in the north. Forestry has risen from the nadir to which it had sunk in the interwar period and with systematic reforestation and restrained cutting promises to improve further with time. Thousands of Norwegians nevertheless eke out a livelihood from forestry or a combination of marginal forestry and marginal

CONFIDENTIAL

CONFIDENTIAL

Page 26
Encl. No. 1
Desp. 302
From OSLO

agriculture. The Trade Union Federation in particular is concerned about the extent of concealed unemployment and is seeking ways to divert the wasted manpower resources into more productive occupation.

Hydroelectric power is Norway's one cheap, abundant, natural resource. Only about 25% of the potential has been tapped and power necessarily must be the focal point of future development. The electrometallurgical and electrochemical industries are the foundation stones of the export economy at present and are likely to become even more important in the future.

Although employment and production occupy the center of the economic stage in Norway, the allocation of the product of the economy is a matter of presently muted but probably more strident future concern. Hitherto, the most precious possession of the vast majority of Norwegians has been ample leisure time in which to enjoy their satisfactory but modest standard of living. This characteristic has predisposed them to the welfare programs of the Labor government. This in many respects has been of great benefit to the economy. In effect, the Norwegian society has consisted of a mass of people contented with gradual, unostentatious improvement of their lot, with just sufficient leavening of capable, restlessly ambitious individuals to provide a leadership elite. In other circumstances the heavy investment demands of Norway's capital-intensive economy might have proven intolerable. Since the end of World War II Norwegians have consumed a smaller proportion of their final product than the people of any other advanced Free World country, and as a consequence their investment has been correspondingly higher, averaging some 30 percent of GNP annually. However, their rate of economic growth has not been phenomenal because the capital-output ratio, 10:1, has also been very high as a result of such factors as extensive social overhead programs, the capital-intensive nature of production and one-shift operation of plants.

The necessity for a high rate of investment has been and continues to be generally accepted. But the proportion between private and public investment is extremely controversial. Few oppose heavy governmental expenditures for the very costly economic infrastructure, i.e., hydroelectric development, roads, schools, and even welfare expenditures, but cleavage is sharp -- at least in the ideological and political sense -- over the desirability of state and mixed ownership of industrial enterprises.

Even if this division of opinion were resolved, however, a new and perhaps more profound dilemma appears to be in the offing. Norway, like

CONFIDENTIAL

~~CONFIDENTIAL~~

Page 29

Encl. No. 1

Desp. 302

From OSLO

many other West European countries, is entering the high mass consumption stage of development. A revolution in the distribution system is in the making. With the virtual ending of import restrictions on manufactures, merchants are tempting consumers with offerings of the world's most desirable goods and are beginning to provide consumer credit. They thus are in the process of eliminating the former necessity of saving to purchase desired goods at a later time. This vista now opening up for the consumer of enjoying now and paying later for a great variety of the products of industry will appeal especially to the hitherto controlled propensity of Norwegians to enjoy the good things of life. It probably will lead to a demand for the allocation of a greater proportion of final product to consumption. It may produce a tendency to conspicuous consumption. More importantly, it may lead to rebellion against the income-leveling philosophy that has been a guiding tenet of Labor government for 25 years and to its replacement by the much maligned competitiveness that has characterized American society. This, in time, could produce a social revolution that would pose difficult problems for the economy, as well as for other aspects of Norwegian culture.

In other remotely connected respects, social programs already are causing problems. The financial burden of premiums for the extensive social insurance programs are proving very heavy for the lower income groups and are giving rise to complaints. Businessmen and industrialists complain that heavy taxation prevents enterprises from generating the capital they need for expansion and modernization, and forces them to resort so extensively to borrowing that their loan obligations are greatly out of balance compared to their share capital. And unless the government soon reaches a plateau of public investment -- which is unlikely -- taxes may well have to be raised instead of lowered.

The most critical problem facing the economy in the immediate future, however, is the nature of the arrangements that will eventuate next spring from the negotiation for a contract between the employers and the Trade Union Federation, and between the government and the farmers for an agricultural agreement. The prospects are generally considered good for restraint in the demands of both labor and agriculture, and consequently for increases in wages and fringe benefits and in agricultural prices that will approximate recent increases in productivity. The possibility is remote, however, that such great increases will be wrung from the employers and the government, respectively, as to cause great detriment of Norway's ability to compete on world markets.

The longer range problems are more difficult. First, how long will Norway's hydroelectric power potential be capable of development into a

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

Page 30

Encl. No. 1

Desp. 302

From OSLO

usable, cheap resource that gives Norway not only a comparative but also an absolute advantage in the production of a wide range of manufactures. Informed Norwegians realize that the advantage will not last for many years -- hence the great urgency in pushing ahead in the developmental effort. At the same time, Norway is preparing a second string for its bow, that is, it is investing time and talent in nuclear research so as to be prepared to switch to nuclear power when necessary -- but that time of course is not yet.

Second, and most portentous in all respects, is the questionable ability of Norway to generate by research, or otherwise to acquire, the production and distribution technology the economy will require in geometrically progressive amounts in the future. Norway's problem is a problem of smallness; like all small countries Norway can afford to allocate only limited resources to research. The economy is moving into a high technology state of development that will require rapid technological advances on a broad front. Hitherto in the postwar period, Norway has imported large amounts of technology from abroad. In the present era of predictably heightened competition in international trade, foreign technology will probably become increasingly difficult to obtain. Norway's own research effort -- although imaginative and ably directed -- must be considered inadequate to the requirements of that situation. Unless Norway is able to make arrangements for a division of labor with other countries in research, the economy consequently is likely to become unviable. Thoughtful Norwegians are aware of this eventuality and are spurred by it toward support of economic -- and even eventual political -- integration with their West European neighbors.

C. The External Economy

The great extent of Norway's susceptibility to external economic influences is indicated by the ratio between the value of exports of goods and services and the gross national product. The ratio for Norway is 41:100 compared to the U. K. ratio of 21:100 and the U. S. ratio of 4:100.

Trade. Since the days of the Viking Sea Kings Norway has looked outward on the world and depended on it for a large part of its livelihood. The oldest of all Norwegian industries, fishing, at an early stage of development required a large part of its product to be exported. The industry on which the manufacturing sector of the economy was founded, forest products, was primarily an export industry. Probably the most dynamic sector today and in the foreseeable future, electrometallurgical and electrochemical production, to be efficient must necessarily produce

~~CONFIDENTIAL~~

goods far in excess of the needs of Norway's small domestic market, and consequently must export the surplus.

Norwegians then are accustomed to living by foreign trade and realize that they are inevitably exposed to the vicissitudes of changing prices and demand on world markets. They recognize that their export products must be competitive at all times and that their export industries be modern, efficient and expansive. They also accept the fact that the industrial labor force must be mobile and prepared to accept a relationship between its remuneration and the prosperity of particular industries to a larger degree than the labor force in a less open economy. They are prepared to take their chances in world markets. Most informed Norwegians consequently are strong advocates, at least in principle, of free trade, free competition and free enterprise on the international scene, while at the same time they support or acquiesce in control and regulation in the domestic economy.

In practice, there are some notable digressions from the free trade principle. The home consumption industries have been protected by a moderately high tariff wall since the 1920's. Some of these have become internationally competitive but most -- notably the shoe industry -- have not greatly improved their efficiency and some probably have tended to become less competitive. From World War II until recently, at least two major forces tended to offset improvements in efficiency: shelter from foreign competition deriving from quantitative restrictions on trade; and governmental encouragement of new industrial ventures in minor centers of population for the purpose of providing greater employment opportunities. The result has been a proliferation of small units of production with low productivity and high costs of production. The Government in the last two years has moved to expose most of these industries to foreign competition, however, by wholesale liberalization of trade and participation in the European Free Trade Association. Dislocations are almost certain to result in some industrial enterprises. They are likely to have to make major readjustments or to resort to mergers or arrangements for rationalizing production if they are to survive. The competitive position of the home consumption industries therefore will no doubt show improvement over the next few years.

Notoriously, the most protected industry is agriculture. Norway is not by any means unique among the West European countries in protecting agriculture, but it is doubtful that any other supports a higher degree of inefficiency in farming, or sustains a larger proportion of marginal

CONFIDENTIAL

CONFIDENTIALPage 32
Encl. No. 1
Desp. 302
From OSLO

farming units. The stated reason for this policy is the need for a capability to produce an essential minimum supply of food against the contingency of a future war. Norwegians have vivid memories of the severe food shortages they suffered during the German occupation in World War II and few would therefore agree to an abrupt shift away from protectionism. The Government, however, realizes that self-sufficiency in food — even at the minimum subsistence level — is of doubtful feasibility, and is moving quietly and gradually to eliminate inefficient farming while still pursuing a protective policy dictated largely by a political need to retain a large farm vote.

Foreign Investment. Foreign capital has played a prominent role in Norwegian development. The extensive rebuilding and expansion of the merchant marine has been accomplished in large part by foreign loans, many from New York banks. The foreign exchange element of the large expenditures for the development of waterpower has been financed almost exclusively by foreign loans — much of which in the postwar period was furnished by the IBRD. Moreover, the Government has deliberately restricted the generation domestically of private investment capital not only to provide investment funds for Government purposes, but also as a means of forcing enterprises to reduce the inflationary effect of their investments by import capital from abroad.

Little foreign direct investment has been made in Norway, however. The recency of foreign political domination, the doctrinaire social democratic prejudice against foreign capital and the philosophy of tight government regulation of the economy inhibited the development of an atmosphere conducive to foreign direct investment. But officialdom and public alike came gradually to recognize that the immense investment needs of the 1960's required not only the expansion of the existing sources of capital but also the attraction of direct private investment from abroad in massive infusions. In 1959 the Government therefore announced a new policy of encouraging and actively seeking out foreign investment. Trygve Lie, former Foreign Minister and former Secretary General of the U. N., is Special Ambassador for the purpose. His efforts have borne some fruit and may be very productive if, as a result of Cabinet discussions now in progress, the Government decides to permit foreign enterprises to participate in the fourfold expansion of the electrometallurgical industry planned for the next 10 years.

The basic problem in attracting foreign investors to Norway is that Norway offers relatively few advantages. Because of the scarcity

CONFIDENTIAL

CONFIDENTIALPage 33
Encl. No. 1
Desp. 392
From OSLO

of other resources, only waterpower-intensive industries have marked natural advantages. Too, Norway has shown very little inclination to offer the degree of taxation, site procurement and similar advantages that has proven to be so effective in places such as the Netherlands and Puerto Rico, and generally in Western Europe. In fact, when the public has got the scent of slightly preferential treatment of foreign investors it has raised a loud outcry. The climate of public opinion, therefore, clearly will have to change before the Government can offer special inducements to foreign investors. The adjustments — such as mergers, shifts to new lines of production and rationalization of production — that probably will be made necessary by increased competition in EFTA may lead to the emergence from time to time of attractive opportunities for foreign investors, but aside from these accidental opportunities only the electrometallurgical and electrochemical industries appear to be areas of continuing attraction.

D. Current Economic Issues

1. Trade

The U. S. and Norway agree on the basic objective of steadily expanding world trade through the gradual reduction of barriers to trade. Norway, however, desires the establishment of an Atlantic Customs Union including Western Europe, the U. S. and Canada. Norway would move toward this objective by a gradual elimination of all barriers to trade. At the same time, Norway would generalize the tariff reductions to the underdeveloped countries without reciprocal action on their part.

The U. S. cannot share Norway's objective of an Atlantic Customs Union as long as the U. S. is guided by the principle of avoiding material injury by imports to any of its industries. Only a fundamental shift of U. S. policy, such as substitution of dislocation assistance to industry for the "no injury" principle, might make it possible for a U. S. move in such a direction. In present circumstances, only a continued forward movement toward more liberal trade can be expected to ameliorate the differences with Norway on trade policy that arise from time to time.

Recommended Position:

The U. S. should continue to press Norway to reduce the the remaining restrictions on imports from the U. S. In this effort hard core industrial items should continue to

CONFIDENTIAL

CONFIDENTIALPage 34
Encl. No. 1
Resp. 302
From OSLO

be emphasized, but the U. S. should also mount a long-term effort to induce Norway to reduce and in time eliminate a large part of the prevailing restrictions on agricultural imports. Action should also be taken publicly to bring to Norwegian attention the long distance that the U. S. has moved in the last 25 years from its traditional protectionist policies.

2. Shipping

The standard pattern of Norway's external economy has involved an almost continuous excess of imports over exports with deficit being covered by earnings from shipping. Those earnings in fact constitute about one-third of all earnings from external transactions and the ratio between gross earnings from shipping and GNP is 16:100.

Norwegians illustrate their dependence on shipping by a statement that with their merchantmarine they have a West European standard of living, whereas without it they would have an East European standard of living.

Norway has the world's fourth largest merchant marine, and in terms of modern, efficient ships also ranks very high. Norwegian bottoms for some years have carried a gradually increasing proportion of the world's seaborne commerce, amounting to 10.5-11.0 percent in 1960 according to the best estimates obtainable in Norway. The merchant fleet is fully exposed to world competition and has been able to maintain its position because of Norwegian experience and expertness in nautical matters, the seagoing tradition of the Norwegian people, the competence of the country's ship brokers, and the extensive independence of action the shipowners have been allowed to have. The labor costs of the industry have increased only moderately in the postwar period; for example, the going rate of pay for ship captains is approximately the same as that of an American able seaman. Shipowners as a whole, however, have been extremely successful in avoiding government measures designed to reduce income inequalities, with the result that the gap between their standard of living and that of the average Norwegian has begun, and continues to be, steadily growing larger. The shipowners, far from being a politically ostracized group or a political whipping boy, are in fact respected as an elite by all levels of society. Despite the repugnance with which some doctrinaire leaders of the Labor party view them, shipowners are treated even by the government with the consideration and cooperation that the vital importance of their industry earns for them.

CONFIDENTIAL

Encl. No. 1
Desp. 302
From OSLO

For these reasons, the government, press and public solidly unite in opposing aspects of U. S. shipping policy such as our 50-50 shipping clause in aid agreements and our upholding of flags of convenience. Construction and operating subsidies come under less intense fire, probably best described as "sniping." The main Norwegian concern at present is to prevent other countries from instituting wholesale discrimination in favor of their ships, justifying their action by citing U. S. 50-50 clause as a precedent. The Norwegians have been disappointed that the U. S. has declined the invitation of the maritime nations to join in diplomatic protests to some of the countries practicing extensive flag discrimination.

Norway seeks international division of labor in shipping by the elimination of all the restrictions and supports -- except conferences -- other countries use to maintain or increase the size of their merchant fleets.

One possibility of completely eliminating the disagreement with Norway on this issue may lie in a suggestion made some months ago in the press for a long term government-supported program of research and construction leading to replacement of our present merchant fleet by one so efficient and highly automated that it could compete with any and all of the world's marine enterprises.

Norwegian criticism of U. S. shipping policies varies in intensity ~~proportions~~ to the weakness of world freight markets. To the extent to which we are able to promote expanding world trade we also shall reduce the acuteness of the problems arising from this issue.

Recommended Position

Within the range of present U. S. shipping policies, we should seek constantly, but in low key, persuasively to explain our policies and to mitigate the opposition outcries from Norwegian shipping interests.

Serious consideration should be given to undertaking a greater measure of cooperation with efforts of Norway and the other maritime nations to reduce discriminatory practices in shipping. This might take the form of parallel diplomatic action or the adoption of a posture in international bodies against flag discrimination.

CONFIDENTIAL

~~CONFIDENTIAL~~

Page 36

Encl. No. 1

Desp. 302

From OSLO

3. Civil Aviation

Norway desires that civil aviation enterprise be conducted under the same conditions as shipping. Here, however, the problem becomes complicated and difficult. Norway, Sweden and Denmark shortly after World War II joined in establishing a mixed privately and publicly owned aviation enterprise, Scandinavian Airlines System, and conferred on it a virtual monopoly as the chosen instrument of the three countries in international scheduled air transport. SAS has come to be a proud symbol both of Scandinavian solidarity and of Scandinavian ability to compete in a modern "industry." In due course the countries entered an air agreement with the U. S. which among other things provided that the so-called "Bermuda principles" would regulate and "limit" traffic between the U. S. and Scandinavia. The Scandinavians interpret these principles more broadly than the U. S. The Bermuda capacity clauses provide that the preponderance of traffic carried by U. S. carriers and SAS over the North Atlantic shall originate in the U. S. for Scandinavia or vice versa. The Scandinavians consider that the clauses do not limit carriage of traffic originating behind Scandinavia for the U. S. nor traffic originating in the U. S. for destinations beyond Scandinavia. The U. S. considers that the clauses do limit such traffic. In support of their views the Scandinavians assert that: (1) the agreed route descriptions annexed to the civil air bilateral do not cover these types of traffic, and (2) the original intent of the capacity clauses was not to limit this "beyond" traffic but rather to limit the traffic picked up at intermediate points.

At the U. S. request, capacity consultations were held with the Scandinavians in September 1960. The results were inconclusive; each side staunchly maintained its view. The consultations probably served the useful purpose of defining the area of disagreement, but they created bitterness in Scandinavia. Unfortunately, public discussion in Norway — and elsewhere in Scandinavia — ignored the basic issue, i.e., that the talks related to the implementation of an agreement regulating traffic. The Norwegians instead vigorously advocated freedom of the air — which the agreement explicitly limited — and accused the U. S. of departing from its advocacy of freedom of competition and freedom of enterprise, and of pursuing naked commercial advantage. The authorities, the press and the public were united in opposing the U. S. position and only the adeptness of the U. S. delegation to the talks prevented the generation of much more bitterness and recrimination than actually eventuated. A residue of bitterness still remains which will promptly awaken in any recurrence of the discussions.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~Page 37
Encl. No. 1
Desp. 302
From OSLO

Norway's stated objective is freedom of the air substantially equivalent to existing freedom of the sea. Norway would no doubt settle for much less, but is most unlikely in present circumstances to accept our interpretation of the Bermuda principles and specifically our interpretation of the capacity clauses in the U. S. - Scandinavian bilateral.

Recommended Position

The U. S. might well temporarily postpone its efforts to induce Norway and its Scandinavian partners to agree to our Bermuda concepts and concentrate on a pragmatic solution, along some other line such as voluntary measures to increase the proportion of primary justification traffic.⁹ An agreement whereby -- without reference to principle -- SAS would reduce its rate of growth over a period of time, but not freeze its capacity at 1960 levels, until primary justification traffic constituted a larger proportion of total traffic carried, within an agreed range of orders of magnitude.

The U. S. might also consider the possibility of raising the question of the interpretation of the capacity clauses in the International Civil Aviation Organization, as Norway suggested in November 1959. Throughout, however, we should seek to mitigate as best we can the emotional outcry against any discussions whatsoever of civil aviation questions.

4. Regional Economic Cooperation; OECD

All of the foregoing tendencies of Norway in its international economic relations find expression in regional economic cooperation efforts, manifested at three levels: Nordic economic cooperation, the European Free Trade Association and its relationships with the European Common Market, and Atlantic economic cooperation as expressed in the negotiations to reorganize the OEEC into OECD.

Norway is predisposed toward regional economic cooperation by the openness of its economy and the importance of foreign trade and shipping to its well being. Norway, however, chose not to join the Communities of the Six for several reasons: (1) it was skeptical that the Communities would succeed, (2) it found great political difficulty in associating itself so closely with Germany, (3) nationalism prevented acceptance of the goal of political unification enunciated in the Rome Treaties,

~~CONFIDENTIAL~~

CONFIDENTIALPage 38
Encl. No. 1
Desp. 302
From OSLO

(4) Norway objected in principle to the Common External Tariff because it would raise import duties appreciably, particularly on important raw materials, (5) Norwegian home consumption industry feared that it would be unable to withstand the degree of foreign competition that membership would entail, and (6) perhaps most importantly, the basic concept of the Communities fundamentally conflicted with the strongly held Labor party philosophy of regulation of the domestic economy to promote social objectives.

Recently there have been convincing indications that Government and Labor Party leaders realize that the decision against joining the Communities may have been a mistake. The economic price Norway will have to pay for its position outside the Common External Tariff wall of the Six will no doubt be stiff in terms of lost markets, particularly since List G products comprise about half of Norway's exports to the Common Market countries. Norwegian officials are skeptical about the possibility of negotiating meaningful compensatory reductions in the common tariff or reciprocal reductions during the multilateral negotiations to be held early in 1961 under GATT auspices. Significant and growing numbers of Norwegians are coming to doubt that a small economy such as Norway can in the long run remain economically viable in an era that requires increasingly higher industrial and distributional technology to remain competitive. Many Norwegians have come to realize that a small country such as theirs cannot pursue a distinctive foreign policy. A mere handful express the view that the political union of Western Europe will become necessary in a few years. Almost to a man, however, Norwegians support European unity, in the sense of close cooperation among the West European countries, and deplore the split that they firmly believe has resulted from the formation of two trading blocs.

But Norwegians have only recently acquired most of the foregoing insights and opinions. After the failure in 1958 of the OEEC Free Trade Area negotiations they chose to join in the work of forming the European Free Trade Association (Outer Seven) partly because they could not hope to cope with vastly superior bargaining power of the Six, partly because they needed to compensate to the extent possible for the impending loss of their markets in the Six, and partly because they believed the Seven had hopes of building a bridge to the Six. Perhaps most importantly, the rules and structure of the EFTA fitted exactly with Norway's concept of the ideal arrangement — free play of economic forces in international relationships combined with scope for government regulation of the domestic economy.

CONFIDENTIAL

Page 39
Encl. No. 1
Desp. 302
From OSLO

The hoped-for bridge has not, of course, eventuated and is still not in sight. Most thoughtful Norwegians have concluded that an association of the Six and Seven will require, at the least, extensive harmonization of tariffs; perhaps a customs union with its own common outside tariff wall; a common commercial policy; and probably extensive harmonization of domestic economic policies. Moreover, there are few indications that Norway would balk at paying such a price for reconciliation with the Six. In fact, there is reason to believe that if the U. K. were to join the Six, Norway would follow.

One of the principal restraints on such a move by Norway would be its reluctance to impair the ties between the Nordic countries that have been assiduously cultivated since the end of World War II. Numerous frustrations, however, have attended efforts to build a firm economic underpinning to the structure of Nordic cooperation. The most notable was the protracted effort to erect a Nordic Common Market, which was frustrated by the decision of Norway, Sweden and Denmark to participate in the EFTA.

Periodically, demands are made on the Norwegian and other Nordic governments to find and put into practice concrete programs for further economic cooperation. Government experts dutifully examine the possibility of such programs, but find little scope for them. Cooperation already exists in labor market, social insurance and similar areas; other prospective joint fields of endeavor are hedged about with imposing difficulties, as witnessed by the problems in connection with the Norwegian-Finnish project to build a pulp and paper plant in North Norway near the Finnish border.

Estopped, at least for the time being, from expanding Nordic economic cooperation and building a bridge to the Six, Norway has concentrated its attention during the last few months on Atlantic economic cooperation. Norway welcomed the initiative of the United States in suggesting the reorganization of the OEEC and the participation of the U. S. and Canada as full members in the successor organization. It gave Norwegians a new outlet for their energies in international economic affairs and provided a welcome relief from the frustrations of the previous two or three years. Moreover, Norway was extremely pleased that the U. S. was prepared to give economic substance to the concept of Atlantic community.

Differences of views however soon developed. Norway was, and still is, motivated by a desire to have tight, explicit commitments and rules apply to the OECD as a protection against the superior leverage of

CONFIDENTIAL

CONFIDENTIALPage 40
Encl. No. 1
Desp. 302
From OSLO

larger states. Thus, Norway was disappointed at the initial U. S. de-emphasis of trade functions, at U. S. objections to continuation of large parts of the code of Liberalization, and at our problems in accepting the concept of coordination of economic policies. The vital importance of shipping has led Norwegians to show the greatest concern, however, when they believed that provisions for non-discrimination in shipping might be removed from the Code of Invisibles and, later, that the entire code might be left in limbo until the charter of the OECD had been signed.

Norway is intent on bringing about a set of organic relationships between the Six and Seven, even though Norwegians generally realize that this objective will not be easily or quickly attained. Norway considers that the U. S. has been lukewarm to the EFTA at best and perhaps opposed to it in private. Opinion is widespread in Norway that the U. S. should actively work toward a reconciliation of the two groups, particularly since it is generally held in Norway that the attitude of France is the principal obstacle and that the posture of the U. S. reinforces the French in their views.

The burgeoning development of the Common Market -- despite such setbacks as failure to agree on the European Economic Commission's proposals for common agricultural arrangements -- appear to have carried the Six so far along the path of integration that it no longer requires the care necessary for a young and tender plant. It also appears as likely as not that U. S. trade interests would be advanced, particularly in the long term, by an association of the two groups. Furthermore, by taking an active hand in working out arrangements for such association, the U. S. would be in the best position to advance its essential interests. Certainly we would greatly strengthen in relations and influence with Norway by pursuing such a course.

Norway desires a U. S. commitment to close and extensive economic cooperation between the U. S. and Western Europe within a well defined institutional framework ordered by a set of detailed explicit and precise rules. Norway seeks -- preferably by the establishment of rules and procedures -- to avoid backsliding in trade, invisible and capital transactions, and coordination of economic policy; to minimize the extent and duration of any temporary lapses; and to lay the foundation for advance toward even closer cooperation in these fields. Norway is sympathetic in principle to U. S. views on development assistance activities but considers that these views do not have much practical applicability to Norway, because it will be preponderantly an importer of capital for many years to come.

CONFIDENTIAL

CONFIDENTIAL

Page 41
Encl. No. 1
Desp. 302
From OSLO

Norwegians will judge the U. S. by the liberality of its approach to emergent problems and by its willingness to commit itself to close and growing cooperation with Europe. Moreover, Norway can be expected to react violently to proposals that it considers inimical to its vital shipping interests and may go to extreme lengths to forestall such proposals.

Recommended Position:

The U. S. should seriously review the possibilities of a more forthcoming position toward the Seven and promoting an organic Six-Seven link. No specific courses of action toward Norway directly, however, seem indicated.

Similarly, the U. S. should continue in Paris to negotiate the compromises of issues on OECD on which the two countries differ, taking Norwegian desiderata into account to the extent feasible. No specific courses present themselves in relation to direct action with Norway.

CONFIDENTIAL